



Consolidated Financial Result

(For the 6-month period ended June 30, 2021)



July 29, 2021

Company name: **SIOS Corporation**
 Address: 2-12-3 Minami Azabu, Minato-ku, Tokyo 106-0047 Japan
 Stock exchange listings: Tokyo Stock Exchange (TSE)
 Code number : 3744
 URL: <https://www.sios.com/>
 Representative: Nobuo Kita, Representative Director
 Contact: Tokutaro Kobayashi, S.V.P. of Finance & Accounting
 Phone: +81-3-6401-5111

Scheduled date for filing of quarterly financial report: August 13, 2021

(Note) All figures in the financial statements are rounded down to the nearest millionth.
 ‘-’ indicates a loss or negative figure.

1. Consolidated results (January 1, 2021 through June 30, 2021) (% of change from previous second quarter)

(1) Consolidated business results

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
6-month period(2021/6)	8,079	11.0	295	443.2	316	446.0	234	-
6-month period(2020/6)	7,276	5.2	54	42.0	57	-17.9	19	-

(Note) Comprehensive income

As of June.30, 2021: 271 million yen/ -%

As of June. 30, 2020: 8 million yen/ -%

	Net income per share - Basic	Net income per share - Diluted
6-month period(2021/6)	27.06	-
6-month period(2020/6)	2.29	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
6-month period(2021/6)	6,465	1,739	26.1
FY2020	6,851	1,548	21.9

(Reference) Equity

As of June. 30, 2021: 1,686 million yen

As of Dec. 31, 2020: 1,500 million yen

2. Cash dividends

Record Date	Dividend per share				
	End of Q1	Interim	End of Q3	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2020	-	0.00	-	10.00	10.00
FY2021	-	0.00	-	-	-
FY2021 (expected)	-	-	-	10.00	10.00

(Note) Revisions to recent dividend forecast: None

3. Forecast of consolidated results for FY2021 (January 1, 2021 through December 31, 2021)

(% of change from previous year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY2021	15,700	5.8	480	103.2	510	98.9	390	25.8	44.99

(Note) Revisions to recent business forecast: Yes

4. Others

- (1) Reclassification of significant subsidiaries during the period (Reclassification due to change in scope of consolidation): None
 (2) Application of special accounting methods for the preparation of the consolidated quarterly financial statements: None
 (3) Change in accounting policies, accounting estimates and restatement
 (i) Change in accounting policies associated with revision of accounting standards: None
 (ii) Change arising from other factors: None
 (iii) Change in accounting estimates:None
 (iv) Restatement:None
 (4) Number of outstanding shares (common shares)

(i) Number of outstanding shares (including treasury stock)	Second quarter of FY2021	8,874,400 shares	FY2020	8,874,400 shares
(ii) Number of treasury stock	Second quarter of FY2021	205,838 shares	FY2020	205,838 shares
(iii) Average number of outstanding shares (6-month period)	Second quarter of FY2021	8,668,562 shares	Second quarter of FY2020	8,668,628 shares

Explanation about proper use of forecasts of consolidated financial results and other special notes

- Information Regarding the Audit Review Procedure: This report is outside the scope of the procedures for quarterly review of financial statements as required under the financial instruments and Exchange Act of Japan. The aforementioned procedures have not been completed as of the time of disclosure of this document.
- Net income per share was calculated by the number of outstanding shares (excluding treasury stocks) at the end of fiscal year.
- Forecasts announced by the company referred to above were prepared based on management's assumption with information available at this time and therefore involve known and unknown risks and uncertainties. Please note such risks and uncertainties may cause the actual results to be materially different from the forecasts.
- This information to above is an UNOFFICIAL English-language translation of the original Japanese-language version. The format and contents of this document are defined by the requirements of the Tokyo Stock Exchange's 2nd Section.
To the extent that there are discrepancies between this translation and the original version, the original version shall be definitive.

○Table of Contents of the Attached Document

1. Qualitative Information on Quarterly Results.....	4
(1) Results of Operations.....	4
(2) Summary of Financial Position	5
(3) Forward-looking Statements Including Consolidated Business Forecasts	5
2. Quarterly Consolidated Financial Statements.....	6
(1) Quarterly Consolidated Balance Sheet	6
(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income	8
Quarterly Consolidated Statements of Income	8
Quarterly Consolidated Statements of Comprehensive Income	9
(3) Quarterly Consolidated Statements of Cash Flows.....	10
(4) Notes to Quarterly Consolidated Financial Statements	11
Notes to Going Concern Assumption	11
(Notes on significant changes in the amount of shareholders' equity).....	11
Segment Information.....	12
(Additional Information).....	14
(Significant subsequent events)	14

1. Qualitative Information on Quarterly Results

(1) Results of Operations

Overview of Consolidated Business Performance for the Six Months Ended June 30, 2021

During the six months ended June 30, 2021, the global economy continued to struggle amid the increasingly serious COVID-19 pandemic. The uncertainty over the economic outlook remained high also in Japan, as it was difficult to predict when the public health crisis brought about by the coronavirus would subside.

In the IT solutions arena in which the SIOS Group operates, however, companies continued to invest at an accelerated pace in implementing digital transformation (DX)¹ solutions, including switching to teleworking and transitioning to cloud environments. In this favorable business environment, the Group pursued every growth opportunity by offering value-added products and services to corporate clients to assist them in moving forward with DX and by stepping up cross-selling efforts, following the realignment of Group companies.

The Group achieved consolidated business results by segment for the six months ended June 30, 2021, as follows:

(i) Open System Infrastructure Business Segment

As corporate clients continued to invest aggressively in implementing DX amid the COVID-19 crisis, the Group enjoyed strong sales of Red Hat Enterprise Linux² and other software products sourced from Red Hat, Inc.³ The Group also achieved an increase in sales of its core LifeKeeper⁴. As a result, net sales in this segment soared 20.8% year on year to 5,054 million yen with a segment income of 215 million yen, compared with a segment loss of 5 million yen for the same period the previous year.

(ii) Application Business Segment

Revenues from software applications for MFPs⁵ grew year on year, supported by their increased sales in units and helped by the fact that the revenue from subscriptions⁶ for these applications signed on for by corporate clients during the previous fiscal year began to be recognized during the period under review. The Gluegent series⁷ also achieved a year-on-year increase in sales. In contrast, revenues from the provision of support for system development and implementation to financial institutions declined. In addition, as the web service business for broadcasters as well as the social and public outsourcing service business had been sold to outside the Group in the previous fiscal year, revenues from those two businesses were no longer counted toward segment sales for the period under review. As a result, net sales in this segment were down 2.2% year on year to 3,024 million yen.

The segment income was up 32.7% to 79 million yen, thanks primarily to the strong sales of products developed in-house, such as software applications for MFPs and Gluegent series products mentioned earlier.

The Group's combined net sales of these two segments jumped 11.0% year on year to 8,079 million yen, which marked the record-high first-half sales for the Group. The Company's consolidated quarterly operating profit jumped 443.2% to 295 million yen. The Company posted a consolidated quarterly ordinary profit of 316 million yen, up 446.0%, and a consolidated quarterly profit of 234 million yen attributable to owners of parent, compared with a profit of 19 million yen the previous fiscal year.

The Group's key management metrics EBITDA (the sum of operating profit, depreciation, and amortization of goodwill) and ROIC (ratio obtained by dividing operating profit after tax by the sum of shareholders' equity and interest-bearing debts) are as follows for the six months ended June 30, 2021:

EBITDA: 334 million yen, up 231.6% year on year

ROIC (annualized): 16.9%, compared with 3.5% for the same period the previous fiscal year

1 Digital transformation(DX)

A process in which a company uses data and digital technology to transform its products, services, and business models to more effectively respond to constantly changing business environments and deliver greater value to customers and society as well as to transform its business processes and organizational structure and culture to gain greater competitive advantage.

2 Red Hat Enterprise Linux

Linux OS developed by the open solution provider Red Hat, Inc.

3 Red Hat, Inc. Related Items

Linux OS product developed by Red Hat, Inc., a provider of open source solutions.

4 LifeKeeper

A failover software product that automatically switches a failed primary server to a backup server.

5 Software application for multifunction printers

A multifunction printer (MFP) is a piece of office equipment that incorporates print, scan, copy, and fax capabilities into one unit. SIOS develops, markets, and updates Quick Scan and Speedoc, document management software applications running on an MFP.

6 Subscription business model

A business model that charges customers a recurring monthly or annual fee to access a software product or service.

7 Gluegent series

Service products designed to assist corporate clients in achieving greater operational efficiency using cloud solutions. The series includes the Gluegent Gate cloud-based management of user IDs, the Gluegent Flow cloud-based workflow system, and the Gluegent Apps Group Scheduler, which incorporated a function to manage schedules of team members into Google Calendar.

(2) Summary of Financial Position

(i) Assets

Current assets amounted to 5,652 million yen as of June 30, 2021, down 6.7% from the end of the previous fiscal year, reflecting a decrease of 485 million yen in merchandise.

Non-current assets amounted to 812 million yen, up 2.6% from the previous fiscal year-end, reflecting an increase of 46 million yen in investment securities.

As a result, total assets amounted to 6,465 million yen, down 5.6% from the previous fiscal year-end.

(ii) Liabilities

Current liabilities amounted to 4,211 million yen, down 11.3% from the previous fiscal year-end, reflecting a decrease of 865 million yen in accounts payable trade.

Non-current liabilities amounted to 514 million yen, down 6.9% from the previous fiscal year-end, reflecting a decrease of 61 million yen in long-term loans payable.

As a result, total liabilities amounted to 4,725 million yen, down 10.9% from the previous fiscal year-end.

(iii) Net assets

Total net assets amounted to 1,739 million yen, up 12.4% from the previous fiscal year-end, reflecting the posting of a profit of 234 million yen attributable to owners of parent for the period under review.

(3) Forward-looking Statements Including Consolidated Business Forecasts

We have updated the consolidated business forecasts for the fiscal year ending December 31, 2021, which were originally announced on January 28, 2021.

For details, refer to "A Revision to Consolidated Business Forecasts," announced on July 29, 2021.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

	FY 2020 (as of December 31, 2020)	FY 2021 Q2 (as of June 30, 2021)
Assets		
Current assets		
Cash and deposits	2,858,289	3,240,834
Notes and accounts receivable-trade	2,311,150	1,898,308
Merchandise	491,228	5,598
Work in progress	26,741	31,137
Advance payment	245,565	259,464
Other	127,097	217,758
Allowance for doubtful accounts	-200	-200
Total current assets	6,059,872	5,652,900
Fixed assets		
Tangible fixed assets		
Buildings (net)	76,527	69,807
Other (net)	55,086	73,956
Total tangible fixed assets	131,614	143,764
Intangible fixed assets		
Software	110,467	98,946
Other	1,781	1,781
Total intangible fixed assets	112,249	100,728
Investment and other assets		
Investment securities	233,775	280,424
Net defined retirement assets	47,093	52,049
Guarantee deposits	193,996	184,046
Other	77,319	55,901
Allowance for doubtful accounts	-4,221	-4,221
Total investment and other assets	547,963	568,201
Total fixed assets	791,826	812,693
Total assets	6,851,698	6,465,594

(In thousands of yen)

	December 31, 2020	June 30, 2021
Liabilities		
Current liabilities		
Accounts payable-trade	1,845,041	979,833
Short-term loans payable	50,000	-
Current portion of long-term loans payable	123,120	123,120
Lease obligations	7,099	6,027
Income taxes payable	57,673	43,863
Advances received	2,070,735	2,573,536
Provision for bonuses	35,328	-
Provision for loss on order received	604	97
Other	561,448	485,384
Total current liabilities	4,751,052	4,211,862
Non-current liabilities		
Long-term loans payable	290,500	228,940
Net defined benefit liability	241,315	254,034
Lease obligations	8,908	19,444
Long-term deposits received	11,632	11,632
Total non-current liabilities	552,357	514,051
Total liabilities	5,303,409	4,725,913
Net assets		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Retained earnings	349,766	497,626
Treasury shares	-87,254	-87,254
Total shareholders' equity	1,744,031	1,891,892
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-6,848	-3,816
Foreign currency translation adjustment	-236,209	-201,998
Total accumulated other comprehensive income	-243,057	-205,814
Subscription rights to shares	47,315	53,603
Total net assets	1,548,289	1,739,680
Total liabilities and net assets	6,851,698	6,465,594

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive IncomeQuarterly Consolidated Statements of Income
Six months ended June 30

(In thousands of yen)

	Six months ended June 30, 2020	Six months ended June 30, 2021
Net sales	7,276,483	8,079,445
Cost of sales	5,097,568	5,592,718
Gross profit	2,178,914	2,486,726
Selling, general and administrative expenses	2,124,512	2,191,237
Operating profit	54,402	295,489
Non-operating income		
Interest income	3,956	2,242
Foreign exchange gains	9,053	-
Gain on valuation of derivatives	-	35,479
Share of profit of entities accounted for using equity method	-	19,756
Other	7,887	7,329
Total non-operating income	20,897	64,808
Non-operating expenses		
Interest expenses	1,617	1,131
Loss on investments in partnership	1,269	-
Share of loss of entities accounted for using equity method	11,087	-
Loss on valuation of derivatives	3,172	-
Foreign exchange losses	-	42,581
Other	214	255
Total non-operating expenses	17,362	43,968
Ordinary profit	57,938	316,329
Extraordinary income		
Gain on sale of non-current assets	-	74
Total extraordinary income	-	74
Extraordinary losses		
Loss on retirement of non-current assets	615	2,856
Loss on valuation of golf club membership	268	-
Total extraordinary losses	883	2,856
Profit before income taxes	57,055	313,546
Income taxes-current	37,245	46,758
Income taxes-deferred	-	32,242
Total income taxes	37,245	79,000
Profit (loss)	19,809	234,546
Profit (loss) attributable to owners of parent	19,809	234,546

Quarterly Consolidated Statements of Comprehensive Income
Six months ended June 30

(Unit: thousand yen)

	Six months ended June 30, 2020 (From January 1, 2020 through June 30, 2020)	Six months ended June 30, 2021 (From January 1, 2021 through June 30, 2021)
Profit	19,809	234,546
Other comprehensive income		
Valuation difference on available-for-sale securities	-3,687	3,032
Foreign currency translation adjustment	-8,206	33,592
Share of other comprehensive income of entities accounted for using equity method	103	618
Total other comprehensive income	-11,791	37,242
Quarterly comprehensive income	8,018	271,789
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	8,018	271,789

(3) Quarterly Consolidated Statements of Cash Flows

(In thousands of yen)

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2021
Cash flows from operating activities		
Profit (loss) before income taxes	57,055	313,546
Depreciation	46,192	39,461
Amortization of goodwill	428	-
Interest and dividend income	-4,464	- 2,508
Interest expenses	1,617	1,131
Loss (gain) on investments in partnership	1,269	-
Share of (profit) loss of entities accounted for using equity method	11,087	-19,756
Decrease (increase) in notes and accounts receivable-trade	145,501	420,868
Decrease (increase) in inventories	-4,771	481,234
Increase (decrease) in notes and accounts payable-trade	-83,122	- 865,208
Increase (decrease) in net defined benefit liabilities	-4,208	12,718
Increase (decrease) in advance received	367,997	467,414
Decrease (increase) in advance payment	-72,610	-13,898
Increase (decrease) in consumption taxes payable	91,035	-29,776
Other	-14,223	-65,140
Sub-total	538,783	740,084
Interest and dividend income received	4,464	2,508
Interest expenses paid	-1,617	-1,131
Income taxes refund	30,033	-
Income taxes paid	-31,657	-97,059
Net cash provided by (used in) operating activities	540,005	644,402
Cash flows from investing activities		
Payment into time deposits	-130,000	-
Proceeds from withdrawal of time deposits	130,000	130,000
Purchase of property, plant and equipment	-2,134	-7,119
Purchase of intangible assets	-44,975	-3,300
Payments for guarantee deposits	-17,741	-7,297
Proceeds from collection of guarantee deposits	336	-
Payments for asset retirement obligations	-	-30,535
Purchase of investment securities	-25,000	-25,200
Proceeds from distributions from investment partnerships	19,813	-
Loan advances to subsidiaries and associates	-21,542	-
Other	271	-8,559
Net cash provided by (used in) investing activities	-90,971	47,989
Cash flows from financing activities		
Dividends paid	-42,707	-86,938
Net increase (decrease) in short-term borrowings	-	- 50,000
Repayments of long-term loans payable	-67,391	-61,560
Other	-4,120	-9,529
Net cash provided by (used in) financing activities	-114,219	-208,027
Effect of exchange rate changes on cash and cash equivalents	-5,751	28,179
Net increase (decrease) in cash and cash equivalents	329,063	512,544
Cash and cash equivalents at beginning of year	2,136,069	2,728,289
Cash and cash equivalents at end of quarter	2,465,132	3,240,834

(4) Notes to Quarterly Consolidated Financial Statements

Notes to Going Concern Assumption

Not applicable

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.

Segment Information 【Segment Information】

I. For the Six months ended June 30, 2020 (From January 1, 2020 through June 30, 2020)

1. Information on the amount of sales and income/loss by reportable segment

(Unit: thousand yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income (Note)
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	4,183,428	3,092,935	7,276,363	120	7,276,483
Inter-segment sales and transfers	694	1,498	2,192	-2,192	—
Total	4,184,122	3,094,433	7,278,555	-2,072	7,276,483
Segment profit (loss)	-5,517	59,800	54,282	120	54,402

Note: The total amount of segment income (loss) is adjusted to be equal to operating profit presented in the quarterly consolidated statements of income.

Supplementary Information

Information by region

In addition to the disclosure required by “Accounting Standard for Quarterly Financial Statements,” information (Sales) by region is disclosed in accordance with “Accounting Standard for the Disclosure of Segment Information” for the purpose of providing users of financial statement with valuable information.

Net sales

Six months ended June 30, 2020 (From January 1, 2020 through June 30, 2020)

(Unit: thousand yen)

Japan	Americas	Europe	Other regions	Total
6,959,197	217,520	69,551	30,213	7,276,483

Note: Sales are classified by country or region in which customers are located.

2. Information on impairment loss of fixed assets or goodwill by reportable segment

Not applicable

II. For the six months ended June 30, 2021 (From January 1, 2021 through June 30, 2021)

1. Information on the amount of sales and income by reportable segment

(Unit: thousand yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income (Note)
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	5,054,452	3,024,692	8,079,145	300	8,079,445
Inter-segment sales and transfers	928	9,828	10,757	-10,757	—
Total	5,055,381	3,034,520	8,089,902	-10,457	8,079,445
Segment profit	215,807	79,382	295,189	300	295,489

Note: The total amount of segment income (loss) is adjusted to be equal to operating profit presented in the quarterly consolidated statements of income.

Supplementary Information

Information by region

In addition to the disclosure required by “Accounting Standard for Quarterly Financial Statements,” information (Sales) by region is disclosed in accordance with “Accounting Standard for the Disclosure of Segment Information” for the purpose of providing users of financial statement with valuable information.

For the six months ended June 30, 2021 (From January 1, 2021 through June 30, 2021)

(Unit: thousand yen)

Japan	Americas	Europe	Other regions	Total
7,742,208	221,740	78,596	36,899	8,079,445

Note: Sales are classified by country or region in which customers are located.

2. Information on impairment loss of fixed assets or goodwill by reportable segment

Not applicable

(Additional Information)

There is no significant change to the assumptions we made earlier about the effect that the COVID-19 crisis might have on the Group's business performance going forward, which were provided in the "Additional Information" section of the Company's securities filings for the fiscal year ended December 31, 2020.

(Significant subsequent events)

Not applicable